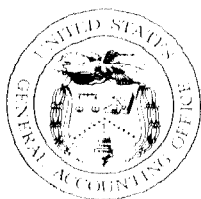


October 1989

POSTAL SERVICE**Final Report on
Compliance With 1989
Budget Reduction
Mandate**



United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-232239

October 31, 1989

The Honorable John Glenn
Chairman, Committee on Governmental Affairs
United States Senate

The Honorable William D. Ford
Chairman, Committee on Post Office
and Civil Service
House of Representatives

This report is provided in accordance with subsection 6003 (c)(4) of Public Law 100-203, the Omnibus Budget Reconciliation Act of 1987. The subsection requires the General Accounting Office to submit a final report to you on whether the United States Postal Service complied with provisions of the act requiring the Service to make payments of \$270 million into the Employees Health Benefits Fund, and that such funds come from savings in the Service's 1989 operating budget. Our preliminary report, as required by the act, was provided to you on September 1, 1989.

We are sending copies of this report to the Postmaster General, congressional committees, and other interested parties. Major contributors to this report are listed in appendix II. If you have any questions, please call me on 275-8676.

A handwritten signature in cursive script that reads 'L. Nye Stevens'.

L. Nye Stevens
Director, Government Business
Operations Issues

Executive Summary

Purpose

The Omnibus Budget Reconciliation Act of 1987 required the United States Postal Service to reduce operating costs by \$160 million in fiscal year 1988 and \$270 million in fiscal year 1989, and make corresponding payments to the Employees Health Benefits Fund. The act requires GAO to determine and report to the Postal Service oversight committees each year whether the Service achieved the reduction in operating costs, and to provide recommendations, if needed, to enforce compliance. GAO concluded last year that the Service complied with the act in fiscal year 1988. This report concerns the 1989 reduction.

Background

The Postal Service is prohibited by the Reconciliation Act from funding the health benefits payments by borrowing or increasing postal rates. To help ensure that the payments result from savings in operating costs, the Postal Service is required to submit to the oversight committees each year a plan saying how the necessary budgetary savings will be achieved.

The Postal Service's cost-reduction plan for 1989 was submitted to its congressional oversight committees on October 3, 1988. It called for reductions in administrative personnel costs, travel, training, and supplies and services; use of less expensive or less frequent mail transportation; efficiencies in mail processing; fewer mail collections; and reductions in employees' merit pay increases. The Postal Service estimated that these initiatives would save \$288 million—a margin of \$18 million above the required amount.

During its review, GAO coordinated with the Postal Inspection Service, which was also reviewing compliance with the act for Postal Service management.

The amounts cited in this report are as of September 22, 1989, the end of the Service's fiscal year. Final audited figures adjusted for the end of the federal government's fiscal year, September 30, 1989, will not be available until later in 1989.

Results in Brief

While GAO could not determine whether all of the individual cost-reduction initiatives achieved their intended savings, the Postal Service's overall efforts produced more than the \$270 million in savings mandated by the Reconciliation Act. Thus, the Postal Service complied with the act in 1989.

GAO's Analysis

For 1989 the Postal Service continued six savings initiatives that it began in 1988 and added six others, which in total the Service estimated would save \$288 million. (See p. 6.)

Certain initiatives, mainly in the transportation and administrative area, produced documented operating cost reductions of about \$293 million, putting the Service in compliance with the Reconciliation Act requirement, even though its overall costs exceeded budgeted levels. The act did not specify an overall ceiling on expenditures. (See p. 14.)

GAO could not verify savings from the deployment of mechanized and automated mail processing equipment, which the Postal Service projected to be \$37.6 million. This was because savings depended on a reduction in operational workhours, and an unknown number of those hours may have been shifted to other work. (See p. 11.)

As a matter of policy, the Postal Service does not borrow to fund operating expenses, and, as stipulated in the Reconciliation Act, did not borrow to pay the \$270 million to the Health Benefits Fund in 1989. (See p. 14.)

Recommendations

GAO is making no recommendations.

Agency Comments

Responsible officials of the Postal Service reviewed a draft of this report. They agreed with the facts and suggested clarifications that have been incorporated where appropriate.

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Introduction

The Omnibus Budget Reconciliation Act of 1987 (P.L. 100-203), enacted on December 22, 1987, required the United States Postal Service to contribute \$270 million to the Federal Employees Health Benefits Fund in 1989 as partial payment toward the cost of benefits for retirees. The act further required that these funds come from a corresponding reduction in the Postal Service's 1989 operating budget and are not to be derived from increased borrowing or raising postal rates.

The Postal Service was required to submit an implementation plan to the Senate Governmental Affairs and House Post Office and Civil Service Committees by October 1, 1988, specifying how the budget reduction would be achieved. An interim report on the status of achieving the savings was required to be sent to the Committees on March 1, 1989.

By October 31, 1989, we are required to report on compliance with the act and, if necessary, make recommendations to enforce compliance. The act also required the Postal Service to save \$160 million in 1988 and set similar reporting requirements for that year.¹

The Reduction Plan

The Postal Service's reduction plan for 1989, dated October 3, 1988, contained six initiatives that began in 1988 and some new initiatives. Those that continued from 1988 were to

- convert some mail from air to cheaper highway transportation;
- reduce AMTRAK service and more fully use other ground transportation;
- delay dispatch of vans from bulk mail centers to reduce the number of trips;
- reduce costs for administrative personnel, travel, training, and supplies and services;
- increase sorting productivity on certain optical character readers; and
- eliminate collections from street boxes and processing of outgoing mail on Sundays.

New initiatives in 1989 were to

- convert air shipments from system contracts that have a high per-pound rate to segment contracts that have lower rates but guaranteed volumes, and convert some highway shipments to lower-cost rail service;

¹See our reports, Postal Service: Preliminary Report on Compliance With 1988 Budget Reduction Mandate (GAO/GGD-88-121, Sept. 1, 1988) and Postal Service: Final Report on Compliance With the 1988 Budget Reduction Mandate (GAO/GGD-89-25, Oct. 31, 1988), in which we concluded that the Postal Service complied with the Reconciliation Act in fiscal year 1988.

- deploy and upgrade automated and mechanized mail processing equipment (four different initiatives); and
- lower merit salary increases for nonbargaining employees.

The Postal Service estimated that the initiatives would save \$288 million, which provided a buffer of \$18 million above the required amount. (The Service's plan, together with the estimated savings, is included in app. I.)

In his interim report to the oversight committees on March 3, 1989, the Postmaster General reported that planned savings were being realized.

Objective, Scope, and Methodology

To meet our objective of reporting on Postal Service compliance with the Reconciliation Act, we assessed the reasonableness of the estimates associated with the cost savings initiatives. Where applicable, we extended our analyses from last year to determine whether the initiatives achieved the necessary savings from the 1989 operating budget.

We interviewed Service officials to determine how they estimated the savings from the new initiatives in the 1989 plan and reviewed those estimates to determine whether they were based on current and appropriate data at the time. We documented fiscal year 1989 operating budgets and costs to the extent possible. We also reviewed operating records, workhour reports, and various analyses to determine the extent to which the Reconciliation Act initiatives may have affected operating costs. Accounting and budget documents relied on were not independently verified for accuracy. In addition, the amounts cited in this report are as of September 22, 1989, the end of the Service's fiscal year. Final audited figures adjusted for the end of the federal government's fiscal year, September 30, 1989, will not be available until later in 1989.

We coordinated with the Audit Division of the Postal Inspection Service, which was also reviewing the Postal Service's compliance with the Reconciliation Act.

We did our work from December 1988 to October 1989 at the Postal Service headquarters in Washington, D.C., and at regional and division offices in the Chicago area. Our work was done in accordance with generally accepted government auditing standards.

Responsible officials of the Postal Service reviewed a draft of this report. They agreed with the facts and suggested clarifications, which have been incorporated where appropriate.

Initiatives in the Budget Reduction Plan

This chapter describes the various initiatives in the Postal Service's savings plan and the extent to which we believe the initiatives reduced operating costs.

Reduce Costs for Administrative Personnel, Travel, Training, and Supplies and Services

This initiative, which began in 1988, called for reductions in administrative personnel costs, travel, training, and supplies and services in the field. In October 1988 when it submitted the fiscal year 1989 savings plan, the Postal Service estimated that these savings would be \$147 million. This was the amount by which the Service's 1988 budget (pre-Reconciliation Act), plus a factor for inflation, exceeded the budget for 1989 in specific administrative cost categories. Subsequent negotiations on the 1989 budget between headquarters and field offices, and a decision to exempt some administrative personnel from this initiative, caused planned administrative costs for 1989 to change. This also changed the \$147 million estimate of savings, but the amount was not formally updated or recalculated. Our comparisons of actual 1989 costs with the pre-Reconciliation Act budget, factored for inflation, show savings in the four areas making up the administrative cost reduction of \$102.5 million, as listed in table 2.1.

Table 2.1: Savings in Administrative Costs

Dollars in Millions			
	1988 Budget ^a	1989 Spending	Savings
Supplies and services	\$514.1	\$470.9	\$43.2
Training	41.5	35.9	5.6
Travel	43.1	41.7	1.4
Administrative personnel	1,427.6	1,375.3	52.3
Total	\$2,026.3	\$1,923.8	\$102.5

^aAdjusted for inflation.

Reduce Transportation Costs

Several initiatives to reduce transportation costs began in 1988, and the Service's 1988 Reconciliation Act savings plan included three—converting some mail from air to highway transportation, reducing AMTRAK service, and delaying the dispatch of vans from bulk mail centers. The 1989 plan continued these three and added two others that also began in 1988—converting mail from highway to cheaper rail transportation and converting mail from one type of air contract having high per-pound rates to another having lower rates but guaranteed volumes. The Service estimated that \$28.8 million could be saved with these initiatives in

1989. The Postal Service's accounting system is not designed to differentiate the savings accruing from one particular transportation initiative versus another. Therefore, we compared 1989 transportation costs in the accounts affected by the combined initiatives with the amounts budgeted for 1988 (pre-Reconciliation Act), including a factor for inflation. Actual transportation savings were \$125.1 million, as shown in table 2.2.

Table 2.2: Transportation Savings

Dollars in Millions			
Mode	1988 Budget ^a	1989 Spending	Savings
Highway	\$531.9	\$486.6	\$45.3
Rail	228.0	222.5	5.5
Air	914.1	835.5	78.6
Other	22.6	26.9	(4.3)
Total	\$1,696.6	\$1,571.5	\$125.1

^aAdjusted for inflation.

Increase Sorting Productivity on Certain Optical Character Readers

This initiative is also a continuation of an effort begun in 1988. It involved modification of certain single-line optical character readers through the addition of a microcomputer and software. The modified machines can sort to carrier routes mail that would otherwise have been sorted on less productive letter sorting machines or manually. The initiative was a temporary measure beginning in 1988 when the modifications were first being put into place and ending in 1989 when the same machines were further upgraded to multi-line readers with even greater capabilities.

Postal Service officials believed that although it was only temporary, the initiative was worthwhile because it was relatively inexpensive and it immediately improved productivity. Postal Service management reports indicate that from September 24, 1988, through August 25, 1989, about 500 million pieces of mail were processed through the modified optical character readers. At current mail processing workhour compensation rates, the workhour savings amounted to about \$7.8 million compared with the \$18.5 million originally estimated. The exact budgetary savings cannot be determined, however, because workhours saved at this task (sorting letter mail) may have been shifted to other work, and the overall effect on personnel costs is not calculable.

Eliminate the Collection and Processing of Outgoing Mail on Sundays

This change also began in 1988. The estimated savings for fiscal year 1989 was about \$26 million, which is an annualization of an estimate prepared early in 1988 during the initial planning for the Budget Reconciliation Act reductions. The Service's accounting system is not designed to show the net cost savings specifically attributable to eliminating selected Sunday operations. In order to gauge how much money was being saved by this change, the Assistant Postmaster General, Department of the Controller, directed a cost study in which affected postal facilities were to identify and report comparative detailed costs for periods before and after the Sunday change was implemented.

Post offices reported amounts that, when reviewed by the Office of the Controller and projected to a full year, amounted to about \$24.2 million in reduced personnel and vehicle expenses. Most of the estimated savings were from reduced Sunday premium pay and pay for part-time and casual (temporary) employees. The Controller's office noted problems with the quality of some of the data. For example, while some post offices were able to extract information from operating records, others had to estimate as best they could; and post offices interpreted the instructions differently. As a result, the Controller's office concluded that it was more reasonable to believe that the savings fell within a range of 25 percent plus or minus the reported amounts. Projected to a full year, this would indicate savings of from \$17 million to \$28 million due to eliminating certain Sunday operations. In the absence of better field data, the Controller's study constitutes a practical confirmation that savings resulted from this initiative. Because the study confirmed the reasonableness of the original \$26 million estimate, we accepted that figure as the budgetary savings from this initiative.

Deploy and Upgrade Mail Processing Equipment

The 1989 reduction plan contained several initiatives for which savings of \$37.6 million were dependent on workhour savings to be achieved by the deployment of additional mail processing equipment and the upgrading of other machinery. These initiatives included the following:

- Carrier route information system for Burroughs optical character readers. Starting in November 1988, modification kits were to be placed on 126 optical character readers to give them additional sorting capability similar to that described above for another brand of optical character readers that were modified earlier. The modification was estimated to produce workhour savings of about \$6 million in 1989 and 1990 based on testing, which indicated a potential savings of 8 workhours a day per modified machine. Because the estimate was prepared before delivery

schedules of the modification kits were known, it was estimated that half the estimated savings, or \$3 million, would occur in 1989.

- Additional bar code sorters. Bar code sorters sort mail that has been bar coded by optical character readers. The Service purchased an additional 224 sorters to take advantage of higher than expected productivity of upgraded optical character readers. The savings estimate of \$8.8 million from this initiative represents workhours that were expected to be saved by the sorters compared with processing this mail manually or on letter sorting machines. Workhour savings per machine were based on studies at several locations and were extended at approximate workhour labor rates.
- Modify letter sorting machine keyboards. This initiative involves replacing the switches on keyboards of 940 letter sorting machines throughout the Postal Service with more reliable state-of-the-art switches. Savings were expected through less maintenance and fewer mail processing workhours as a result of not having to rework mail that is mis-sorted because of errors produced by the existing keyboards. The savings estimate was based on a test at one facility showing that 3.5 percent less of the volume processed on the machines would require rework. To be conservative, a rework rate of 2.5 percent was applied to total annual letter machine volume and projected at applicable productivity and labor rates to arrive at the estimate of \$4.45 million.
- Additional flats sorting machines. With these machines, flats (large envelopes, magazines, and catalogs) can be sorted much more quickly than by hand. The savings estimate of \$21.3 million was based on the workhours that were expected to be saved in 1989 by 109 machines, which were installed and deployed in the field from October 1988 to May 1989. The workhours that would be saved at each location were estimated in engineering studies, and the average for all locations was projected at approximate workhour labor rates to arrive at the total expected savings of \$21.3 million.

Some of the planned savings from the equipment could not have been realized simply because the equipment was deployed later than planned. Modification of the letter sorting machine keyboards was to begin in March 1989, but did not start during the fiscal year. Installation of the sorting systems for the optical character readers was scheduled to start in November 1988 but did not begin until the following March. These two items accounted for \$7.45 million of the \$288 million total savings in the plan.

A more significant problem is the inability to document budgetary savings generated by deployed equipment. The chief difficulty is that the

equipment operates in a mail processing environment where costs are constantly changing because of varied mail volume and operational changes. The effect on costs of the additional equipment is difficult to isolate from the effect of other events; while workhour savings in some operations can sometimes be shown, these reductions may not carry over into a reduction in total mail processing workhours or personnel costs. This is similar to the situation in 1988 when the Postal Service curtailed window services. That savings goal also relied on a reduction of workhours that we could not confirm.

Although we cannot confirm savings from deployment of this equipment, we are continuing work on the effect of automation on mail processing costs. We will report on our results later to the Postal Service and provide copies to the oversight committees.

Lower Merit Salary Increases

Nonbargaining employees of the Postal Service are eligible to receive merit pay increases based upon their performance. The Postal Service's 1989 operating plan was reduced because merit increases in 1988 were less than originally budgeted, which also resulted in lower payroll costs than originally budgeted for 1989. Merit pay increases for 1988 and 1989 included in the Service's fiscal year 1989 President's budget were estimated on the basis of rates of 2.2 percent recommended by the Employee Relations Department in February 1987. The budget office applied this rate to the estimated nonbargaining payroll, and estimated in the President's budget that 1988 merit increases for nonbargaining employees would be \$71.7 million in basic pay, or \$81.3 million including the effect on premiums and benefits. In the summer of 1988, during preparation of the President's preliminary 1990 budget, the Service's budget office updated the merit pay estimate for 1989 to 1.3 percent to reflect lower costs that were actually occurring. The budget office estimated that the actual effect on the 1988 payroll would be \$47.5 million instead of \$81.3 million, a decrease of \$33.8 million. Since the year was not over and the budget office did not know exactly what the final merit increases would be, it included \$30 million in savings in the Omnibus savings plan to be conservative. The final effect on the 1989 payroll was estimated to be \$42.3 million including premiums, overtime, and benefits, or about \$39 million less than originally budgeted. While not the direct result of a specific action taken by the Postal Service as a result of the Reconciliation Act, the lower merit increases to basic pay did constitute lower costs or savings from the amounts originally budgeted. We therefore accepted the \$39 million as the amount of budgetary savings.

Compliance With the Omnibus Act

As discussed in chapter 2, savings of about \$293 million occurred in regional administrative costs (\$103 million), transportation (\$125 million), the elimination of Sunday collections and processing (\$26 million), and from reduced merit pay (\$39 million). The savings goal for these initiatives was \$232 million. Savings under the other initiatives are unknown, primarily because they derive from a reduction in workhours and many of these workhours may have been shifted to other work.

Total operating expenses for the Service fiscal year ending September 22, 1989, were \$38.7 billion, \$246.6 million above plan. However, because the Reconciliation Act does not specify a starting budget figure or place an overall ceiling on expenditures, we believe that generating demonstrable savings of \$270 million or more among the planned initiatives was sufficient to satisfy the act's requirements.

Payments Were Not Financed From Borrowing or a Rate Increase

Section 6003(b) of the Reconciliation Act provides that the Postal Service shall make the payments to the health benefits fund from the resources of its operating budget without increasing postal rates or borrowing. Postal rates did not change in fiscal year 1989. As a matter of policy, the Postal Service does not borrow to fund operations and has not done so since 1976.

Conclusion

The Postal Service saved about \$293 million under certain cost savings initiatives that it adopted to comply with the Reconciliation Act. The Service did not increase borrowing or postal rates in order to make the payment to the health benefits fund. Accordingly, we believe that the Postal Service complied with the Reconciliation Act in 1989.

Postal Service's 1989 Budget Reduction Plan

FISCAL YEAR 1989
IMPLEMENTATION PLAN
OF
OPERATING BUDGET REDUCTIONS
REQUIRED BY
PUBLIC LAW 100-203

U.S. POSTAL SERVICE
WASHINGTON, D.C.
SEPTEMBER 1988

A. CONTINUATION OF COST REDUCTION INITIATIVES BEGUN IN FISCAL YEAR 1988:

1. Servicewide Administrative Cost Reduction Program

On January 15, 1988, a moratorium was instituted on filling administrative positions in the field. Plans were immediately developed by Division General Managers and approved by the Regional Postmasters General to initiate significant reductions in personnel costs, travel, training, and supplies and services budgets. The moratorium on filling positions was then lifted.

Activities affected by personnel cost reductions were finance, human resources, marketing, and general administrative. These costs generally supported postal operations but did not directly involve the processing and delivery of mail. This action did not impact Postmasters.

Plans were implemented in February 1988 and FY 1988 field budgets were adjusted accordingly.

Administrative costs included in FY 1989 field budgets have been held to estimated FY 1988 levels. This results in a continuation during FY 1989 of the savings realized during FY 1988.

2. Carrier Route Information System Sortation

In January 1988, the Deputy Postmaster General approved the national implementation of Carrier Route Information Systems Sortation as a cost reduction effort.

This computer software package is a locally researched and developed effort that increases the sorting capability of Phase II single-line optical character readers.

This system has been successfully installed at 141 sites on 236 units throughout the Postal Service.

Savings will increase in FY 1989 as a result of the carryover effect (annualization) from installations that occurred in FY 1988. FY 1989 field budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

3. Converted Some Air Transportation to Highway Transportation

On January 21, 1988, instructions were issued to the Regions and the Transportation Management Service Centers (TMSCs) outlining cost reduction goals to be achieved by converting selected air transportation of mail to cheaper highway transportation.

Strategies employed to achieve these reductions included the exercise of mail dispatch discipline; full utilization of existing surface transportation; and consistent achievement of clearance time.

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These goals and strategies were implemented by February 13, 1988, and FY 1988 transportation budgets were adjusted accordingly.

Savings will increase in FY 1989 as a result of the carryover effect (annualization) of the savings realized in FY 1988. FY 1989 transportation budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

4. Eliminated Selected AMTRAK Service

On January 11, 1988, various AMTRAK schedules were modified by the TMSCs and FY 1988 transportation budgets were adjusted accordingly.

Contracts for dedicated space on AMTRAK trains were terminated and mail directed to more fully utilize existing ground transportation.

Savings will increase in FY 1989 as a result of the carryover effect (annualization) of the savings realized in FY 1988. FY 1989 transportation budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

5. Increased Load Requirements for Bulk Mail Center Rail/Highway Vans Transportation

On January 4, 1988, Bulk Mail Center rail and highway van dispatch procedures were revised to increase van utilization. Thereafter, a "full trailer" dispatch plan for inter-BMC traffic was implemented and FY 1988 transportation budgets were adjusted accordingly. Trailers less than 75 percent full are no longer dispatched until 24 hours have elapsed since the last dispatch. (Rail trailers which contain transhipped mail were excepted, and may be dispatched daily.)

Some impact on service has been experienced.

Savings will increase in FY 1989 as a result of the carryover effect (annualization) of the savings realized in FY 1988. FY 1989 transportation budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

6. Eliminated Outgoing Distribution on Sundays

On January 22, 1988, instructions were issued to the field by the Deputy Postmaster General to stop Sunday mail collections from street boxes and the processing of outgoing mail. These instructions were implemented on February 14, 1988, and FY 1988 field budgets were adjusted accordingly.

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These reductions will continue for all of FY 1989. Savings will increase over FY 1988 because all 52 Sundays will be impacted in FY 1989. FY 1989 field budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

B. ADDITIONAL COST REDUCTION INITIATIVES NOT INCLUDED IN THE FISCAL YEAR 1988 IMPLEMENTATION PLAN

The following six items are additional cost reduction initiatives which have been undertaken subsequent to the development of the FY 1989 President's Budget.

1. Carrier Route Information System (CRIS) Sortation for Burroughs OCR

Beginning in November 1988, modification kits will be placed on some of our older, Burroughs, Phase I Optical Character Readers (OCR) to allow them to read more than just the bottom line of an address and to sort mail with the additional data. Since the second line generally contains street address data, the CRIS Sort for Burroughs OCR will yield a more detailed and useful sortation of the mail given to the letter carrier. This cost reduction initiative was undertaken subsequent to the development of the FY 1989 President's Budget. FY 1989 field budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

2. Phase II Bar Code Sorter (BCS)

An additional 224 Phase II Bar Code Sorters were purchased in March 1988 to take complete advantage of the greater-than-expected performance of the conversion of the Phase II single-line Optical Character Readers to multi-line capabilities. The Bar Code Sorter reads the bar code sprayed on a letter by the Optical Character Reader, and then sorts that mail accordingly. Deployment of these additional machines started in August 1988. This cost reduction initiative was undertaken subsequent to the development of the FY 1989 President's Budget. FY 1989 field budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

3. Letter Sorting Machine (LSM) Modification

Starting in March 1989, a modification to existing LSMs will be accomplished by local maintenance personnel at each office. This modification involves replacing the existing keyboard contact-type switches with reliable state-of-the-art proximity switches to reduce both the maintenance costs and human keying errors on the LSMs. This cost reduction initiative was undertaken subsequent to the development of the FY 1989 President's Budget. FY 1989 field budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

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4. Model 775 Flats Sorting Machine (FSM)

An additional 118 Model 775 FSMs were ordered in March 1988 to mechanically sort the growing volumes of flat mail in a more efficient and cost effective way.

Deployment nationwide will begin in October 1988 and be completed in June 1989. This cost reduction initiative was undertaken subsequent to the development of the FY 1989 President's Budget. FY 1989 field budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

5. Transportation

System to Segment Air Contracts

Effective in April 1988, the Postal Service began converting from System air contracts, that have a high per pound rate, to Segment air contracts which have lower guaranteed tender volumes. FY 1989 transportation budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

Mode Conversions for One-Way Volumes

Effective April 1988, for one-way or "extra" service moves between selected origin-destination paired locations, Bulk Mail Centers were instructed to convert from traditional round trip highway transportation to lower-cost rail service. FY 1989 transportation budgets have been adjusted to reflect the additional savings anticipated to result from this effort.

6. Non-Bargaining Merit Salary Increases

Each year non-bargaining employees are eligible to receive merit pay increases based upon performance evaluations. An average increase in basic pay of 2.2% was budgeted for fiscal year non-bargaining merit salary increases. Actual increases granted through the third quarter indicate that the Fiscal Year 1988 merit process will result in lower than projected increases in basic pay. These savings are anticipated to continue in Fiscal Year 1989, resulting in lower costs than originally included in the Fiscal Year 1989 President's Budget. FY 1989 operating budgets have been adjusted to reflect the anticipated savings.

Appendix I
Postal Service's 1989 Budget Reduction Plan

Estimated FY 1989 Omnibus Savings Summary
(\$000)

Program

Administrative	\$147,015
CRIS Sort	18,464
Sunday Processing	24,092
Sunday Collections	2,083
Phase II Bar Code Sorter	8,769
Flat Sorter	21,343
LSM Modification	4,450
Burroughs CRIS Sort	3,000
Transportation	28,800
Non-Bargaining Merit/Step	30,000

TOTAL	\$288,016

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